

How Ground-Rents are Rated.

Ground-rents are commonly created under "Building Agreements," *i.e.*, agreements by which the owner of certain land lets it to a builder for so many years on certain conditions. The provisions of such agreements are in general to the following effect:—The builder is to enter on the land, and to erect a number of houses of a definite kind. So soon as the several houses are finished, the land-owner is to grant, and the builder is to accept, separate leases of the houses at rents amounting in all to a specified sum, the builder at the same time agreeing to pay all rates, taxes, and other assessments or "impositions." Thus the land-owner's rent, or "ground-rent," is obtained after an estimate has been made by the builder of the rates that will have to be paid for the houses he is to build. In other words, the whole of the present or probable amount of the rates is deducted in fixing the ground-rent, and in this way **the ground-rent really pays the whole of the rates upon the land and buildings, so that if a special rate were to be levied on the ground-rent it would be rated twice over.**

It is now proposed by some politicians to force the owners of existing ground-rents to pay rates in spite of the contracts to the contrary. It is easy to show that **such Special Taxation of ground-rents would be unjust.** When the builder or first lessee of land obtains his lease from the land-owner, he agrees to give a specified ground-rent, and to pay all future rates and taxes. If the rates had had to be paid by the owner, the builder would have agreed to pay so much more ground-rent. Why, then, should Parliament be asked to transfer the liability from the builder, who has already been fully compensated by a proportionate reduction in the ground-rent he has to pay, to the land-owner, who has already discharged his obligation by taking a smaller rent for his land?

It has been urged that a special tax should be imposed on the land-owners because, since many existing leases were created, the rates have largely increased. There was, for instance, an increase in the pound in the rates of London between 1873-4 and 1883-4 of 15 per cent., but this increase was far more than

counterbalanced for those who held leases by the improved value of the property leased to them, the annual amount received by the leaseholders for this "unearned increment" being nearly three times the increased amount levied for rates.

It has also been urged that some portion of the rates is devoted to permanent improvements; but by far the larger part goes in current expenditure on objects of no permanent value. The proportion of the rates which is due to loans for permanent improvements is generally very small. The sum which, apart from leases to the contrary, might on this account be charged on the land-owner would probably be no more than one-thirtieth, or even one-fiftieth, of the total; but, as has been seen, the land-owner cannot fairly be asked to pay even this fraction, as the building lessee has already agreed to take the burden of all rates upon himself in return for the low rent at which he has obtained the land.

All these facts have been proved in evidence before the Select Committee of the House of Commons on Town Holdings. (See the Final Report of the Committee, published in May, 1892.)

It is therefore clear that as regards existing contracts the Special Taxation of ground-rents would be unjust. As regards future contracts, if the land-owner were made directly liable for some part of the rates, he would easily recoup himself by demanding and obtaining a proportionately higher ground-rent. Such a change in the law would thus confer no benefit upon the tenant. EARL COMPTON, M.P., who was President of the "United Committee for advocating the Taxation of Ground-Rents and Values," said, at a meeting of the London County Council, on November 13th, 1891 :—

"If they allowed rents to be raised—and he did not see how they could prevent it—the last state of the occupier would in all probability be worse than the first. He was perfectly convinced that, wherever they placed upon the owner the payment of local taxation direct, that would mean that the owner, when the lease fell in, would add that amount to his rent." (*Times*, Nov. 14th, 1891.)